

JPMORGAN CHASE & CO.

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November 30, 2009

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 2-3
Washington, DC 20219
Attention: Docket Number OCC-2009-0013

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Attention: Docket Number R-1369

Mr. Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th St., N.W.
Washington, D.C. 20429
Attention: Comments/Legal ESS: RIN #3064-AD48

Regulation Comments, Chief Counsel's Office
Office of Thrift Supervision
1700 G. Street, N.W.
Washington, D.C. 20552
Attention: OTS-2009-0016

Re: Correspondent Concentration Risks

Ladies and Gentlemen:

JPMorgan Chase & Co. ("JPMorgan Chase") is pleased to provide comments on the proposed guidance dealing with correspondent concentration risks (the "Proposal") issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (collectively, the "Agencies").

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While JPMorgan Chase supports and agrees with the majority of guidelines and expectations listed, there are aspects of the Proposal that we feel the Agencies should reconsider.

Funding Concentrations

JPMorgan Chase shares the Agencies' concern that firms adequately monitor funding concentrations. As part of its liquidity management, JPMorgan Chase focuses on having diverse sources of liquidity as well as stable sources of short and long term funding. JPMorgan Chase believes that each banking organization's liquidity management should pay particular attention to material sources of funding that are potentially at risk on short notice. Long term funding sources with remaining maturities in excess of one year, as well as funding from retail deposits which overall remain stable and present no individual concentration risk, raise less concern. On the other hand, short term securities financing facilities, commercial paper issuances and debt maturing within one year should be monitored more closely. In part the Proposal recognizes this; however, JPMorgan Chase believes that the Proposal should more clearly limit its scope to focus on relationships that truly have the potential for concentration risk given the size of a particular institution. Introducing a materiality threshold and focusing on more volatile sources of short term funding (as identified above) would address liquidity concentration concerns while at the same time avoiding unproductive and burdensome data capture on smaller and/or longer term deposits and funding relationships.

More specifically, JPMorgan Chase suggests that the existing supervisory review of an institution's liquidity management provides a robust framework to insure that an institution has diverse and stable funding sources. The regulatory review process could be augmented with specific tracking requirements for counterparty relationships that provide a material amount of liquidity to a particular organization (i.e. measured as a percentage of total liquidity sources), particularly where the counterparty is also a source of higher risk funding, such as short term financings or open placements of funds. Moreover, the guidance should promote compliance procedures that focus on monitoring the material types of funding transactions with large funding counterparties, recognizing that capture of each particular transaction type (if such particular transactions are in total immaterial to the overall funding of the banking organization) is not necessary to accomplish regulatory objectives. In addition, the guidance should also leave room for flexibility in grouping counterparty exposures to accommodate situations where affiliate behaviors are not aligned.

While JPMorgan Chase believes that such a methodology can be highly useful, it can never be fully comprehensive. For example, monitoring of debt holders can only be done at the point of debt issuance. It is not always possible to determine current holders due to secondary market trading. However, while this precludes the ability for complete data capture, inclusion of holders at the time of issuance (with a focus on short term debt issuances) provides significant information to capture concentration risk.

JPMorgan Chase believes that this recommended approach would preserve best practice for concentration risk monitoring which would be reviewed as part of the examination process, provide a specific monitoring process for higher risk, material funding relationships and achieve the policy objectives of the Proposal in a cost efficient manner.

Calculating both gross and net exposures

JPMorgan Chase feels that the Agencies' proposal of monitoring credit concentrations both gross and net of collateral is unnecessary and burdensome. Many exposures, such as counterparty risk from repo-style transactions and derivative transactions, are appropriately measured on a net of collateral basis. JPMorgan Chase proposes that exposures be measured on a net basis where appropriate.

Definition of exposures

The Proposal calls for the aggregation of all exposures and specifically identifies certain exposures for inclusion. JPMorgan Chase feels that the list provided is too specific and that firms be allowed discretion in the types of and the manner in which exposure is measured. For example, a firm should be allowed to capture the credit exposure related to a repurchase agreement using an Exposure at Default ("EAD") approach, as outlined in the Agencies' Basel II -Risk Based Capital Standards, as opposed to monitoring the over-collateralized portion.

Additionally, JPMorgan Chase questions the specific inclusion of:

- 1) funded loan participations that qualify under U.S. GAAP as a sale, as these transactions should not create credit risk between the banks involved,
- 2) unrealized gains on unsettled securities transactions, due to the process needed to track the relatively small exposures created between trade and settlement date, and
- 3) investments in debt instruments that are readily marketable and booked as trading assets.

JPMorgan Chase appreciated the opportunity to comment. If there are any questions regarding our comments, please feel free to contact either Kathleen Juhase at (212) 270-5907 or Adam Gilbert at (212) 270-8928 for additional information.

Very truly yours,

